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DESCRIPTION AND ANALYSIS OF THE CAMP TAX REFORM PLAN

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ABSTRACT

This paper describes the major provisions in the “Tax Reform Act of 2014,” the comprehensive tax reform plan released on February 26, 2014, by Ways and Means Committee Chairman Dave Camp (R-MI). It also presents the Tax Policy Center’s analysis of the plan’s revenue impact beyond the 10-year budget period, distribution of the tax burden, economic incentives, and compliance costs.

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Description and Analysis of the Camp Tax Reform Plan

On February 26, 2014, Ways and Means Committee Chairman Dave Camp (R-MI) released the “Tax Reform Act of 2014,” a comprehensive tax reform plan, which was presented as a “discussion draft” intended to influence the debate forward rather than as legislation ready for a vote. Notwithstanding its dim prospects—Speaker John Boehner (R-OH) reportedly responded with a dismissive, “Blah, blah, blah”—the plan is the most sweeping tax reform proposal floated in decades. Camp’s plan would lower tax rates and curtail or eliminate many tax preferences. The plan would also be revenue neutral over the 10-year budget period and approximately preserve the current overall distribution of tax burdens, although there would be many winners and losers among individuals and businesses. Camp’s reforms include both important innovations as well as a few gimmicks. All in all, it is a bold plan that will surely inform the policy debate when tax reform returns to the agenda.

This paper describes the major provisions in the Camp plan. It also presents the Tax Policy Center’s analysis of the plan’s revenue impact beyond the 10-year budget period, distribution of the tax burden, economic incentives, and compliance costs. Key findings:

- While the Camp plan is revenue neutral over the 10-year budget period, its effects on revenue in later years are highly uncertain. Several provisions that increase revenues in the short term expire or dissipate after the 10-year period, leading to significant revenue losses in later years. Long-term revenue-losing policies include the expiration of transitional provisions, the slowing of revenue gains from the depreciation and amortization provisions, and the front-loading of retirement saving provisions. These revenue losses will be offset at least in part by the adoption of the chained consumer price index (CPI) to index tax parameters for inflation. In addition, the cost of making certain “tax extenders” permanent, such as the research and experimentation tax credit, are likely overstated by official revenue estimates, which must assume such perpetual provisions would otherwise be allowed to lapse.
- Our distributional analysis indicates that the Camp plan would reduce average tax burdens in all income quintiles. However, tax burdens would increase within the top quintile for all but the top 1 percent. Additionally, tax burdens would increase for head of household filers in all quintiles except the lowest. Families with older children, itemizers in high-tax states, and other taxpayers who benefit from tax preferences that are curtailed or repealed by Camp’s plan would also likely face higher tax burdens.
- The Camp plan would improve incentive effects, as measured by effective marginal tax rates (EMTRs), for wages and interest income for all income groups. But for capital gains and dividends, EMTRs would increase in all but the highest income quintile.
- The plan eliminates or changes several prominent tax expenditures. In particular, a combination of provisions would reduce the tax incentive to make charitable contributions. The plan also eliminates a large number of targeted tax breaks for businesses and individuals, which will reduce the effect of taxes on many economic decisions.

- Tax rates would fall for businesses, but an analysis by the Joint Committee on Taxation (JCT) concludes that this effect would be more than offset by base broadening, resulting in an overall reduction in investment incentives.
- The Camp plan would both simplify the individual income tax and lessen complexities for businesses, reducing the significant compliance costs of the current tax system. However, the plan also adds new complications that could simultaneously increase compliance costs.

Description of Major Provisions

Families and Individuals

The Camp plan would amend or repeal all of the basic provisions of the income tax that affect families and individuals: filing status, tax rates, personal exemptions, the standard deduction, itemized deductions, and the child and earned income tax credits. The plan would also reform incentives for education and retirement saving, repeal the individual alternative minimum tax (AMT), and repeal or amend a number of more targeted provisions.

Filing status. The plan would eliminate the head of household filing status, which under current law provides unmarried parents with wider tax rate brackets and a higher standard deduction than those provided for other single filers. However, low-income unmarried taxpayers with at least one child would be allowed a special deduction that would partially offset the loss of this favorable tax filing status.

Reduce tax rates and the number of tax brackets. The plan would reduce the number of income tax rates from six (ranging from 10 percent to 39.6 percent) to three (10 percent, 25 percent, and 35 percent). The 10-percent bracket would be phased out at higher incomes. It also reduces the number of rate schedules from four to two: one for married taxpayers filing jointly and one for all other taxpayers. Rate brackets under current law and the Camp plan (at 2013 levels) are shown in Table 1.

The 35-percent bracket under the Camp plan is the combination of the 25-percent tax rate and a 10-percent surtax that applies to modified adjusted gross income (MAGI), a broader measure of income than taxable income, above \$450,000 (\$400,000 for single taxpayers). MAGI is AGI plus employer-provided health insurance, tax-exempt interest, pre-tax contributions to 401(k)-type retirement plans, Social Security benefits currently excluded from AGI, and certain other items, less charitable contributions and “qualified domestic manufacturing income”.¹

All brackets would be indexed for inflation after 2015, but the inflation index for this (and all other income tax parameters) would be the chained consumer price index, which is projected to increase at a slower rate than the CPI, the inflation index used in current law.

¹ Qualified domestic manufacturing income is net income from domestic manufacturing, producing or growing of goods, or constructing real property. These qualifying activities are narrower than those that qualify for the current “domestic production activities deduction” (discussed below in the section on business reforms).

Table 1. Tax Bracket Thresholds under Current Law and the Camp Plan in 2013\$

Tax Rate (%)	Current Law ¹				Tax Rate (%)	Camp Plan ²	
	Filing Status					Filing Status	
	Married Filing Joint	Single	Head of Household	Married Filing Separate		Married Filing Joint	All Other
10	0	0	0	0	10	0	0
15	17,850	8,925	12,750	8,925	25	71,200	35,600
25	72,500	36,250	48,600	36,250	35	450,000	400,000
28	146,400	87,850	125,450	73,200			
33	223,050	183,250	203,150	111,525			
35	398,350	398,350	398,350	199,175			
39.6	450,000	400,000	425,000	225,000			

¹ All current law tax bracket thresholds are based on taxable income and inflation indexed by the CPI.

² Under the Camp plan the 10 percent and 25 percent tax bracket thresholds are based on taxable income, but the 35 percent threshold is based on modified AGI (MAGI), and all tax bracket thresholds are inflation indexed by the chained CPI.

Replace special rates on capital gains and dividends with a deduction. Current law taxes capital gains and qualified dividends at special rates of zero (in place of ordinary rates of 10 percent and 15 percent), 15 percent (in place of ordinary rates above 15 percent and below 39.6 percent) and 20 percent (in place of the 39.6 percent rate). These special rates would be repealed under the Camp plan, but a deduction of 40 percent of capital gains and qualified dividends would be allowed in computing AGI (making the rate 21 percent for taxpayers in the 35 percent bracket on ordinary income). The 3.8 percent surtax on net investment income enacted as part of the Affordable Care Act (ACA) would be retained under the Camp plan, but in some circumstances the rate on capital gains and qualified dividends would be reduced by the deduction to 2.28 percent.

Repeal personal exemption, increase the standard deduction. Current law provides a personal exemption for taxpayers, spouses and dependents.² The personal exemption amount (\$3,900 per exemption in 2013) is indexed for inflation and is phased out for higher-income taxpayers.

Current law also provides a standard deduction that varies in amount by filing status. In 2013, the amounts were \$12,200 for married filing joint filers, \$6,100 for single and married filing separate filers, and \$8,950 for head of household filers. Standard deduction amounts are increased for taxpayers who are ages 65 and older or blind (in 2013, these amounts were \$1,200 for each circumstance for married taxpayers and \$1,500 for each circumstance for unmarried taxpayers). Special standard deductions apply to dependent filers. All standard deduction amounts are indexed for inflation.

² Dependents are not allowed to also claim a personal exemption if they file their own return.

The Camp plan would eliminate the personal exemption and the additional standard deduction amounts, but would increase the regular standard deduction amounts. For high-income taxpayers, the standard deduction would be phased out, and high-income taxpayers who itemize rather than take the standard deduction would have to reduce their itemized deductions by an equivalent amount. The plan would also allow unmarried taxpayers with at least one child an above-the-line deduction of \$5,500 that would begin to phase out when AGI reached \$30,000. The standard deduction, the above-the-line deduction for unmarried parents, and the income thresholds for phase-outs would all be indexed by the chained CPI.

Currently, taxpayers with income below the sum of their standard deduction (including the additional amount for age and blindness) and their taxpayer personal exemption (which includes the spousal amount on joint returns) generally have no taxable income, and therefore are not required to file a return. However, many taxpayers with incomes below the filing threshold choose to file a return in order to claim refundable credits, to receive refunds of excess withholding on wages, and for other reasons.

Table 2 shows the income levels at which taxpayers would have taxable income under current law and under the Camp plan (at 2013 levels), by filing status, for taxpayers who are younger than age 65 and those who are age 65 and older. These income levels are sometimes referred to as “tax entry” thresholds, because they are the levels of income at which taxpayers have income tax before credits. Note that the current law thresholds are for taxpayers with no children or other dependents—dependent exemptions would raise the tax entry thresholds—except for head of household filers.

Table 2. Taxable Income Thresholds under Current Law and the Camp Plan in 2013\$

Current Law ¹			Camp Plan			
Filing Status			Filing Status			
Married Filing Joint	Head of Household with one child	Single	Married Filing Separate ²	Married Filing Joint	Unmarried with one or more children ³	All Other
<i>Taxpayers Under Age 65</i>						
20,000	16,800	10,000	10,000	22,000	16,500	11,000
<i>Taxpayers Age 65 and Over</i>						
22,400	18,250	11,500	11,200	22,000	16,500	11,000

¹ All thresholds are for taxpayers without children or other dependents, except head of household filers.

² A married taxpayer who files a separate return cannot use the standard deduction if their spouse files and itemizes.

³ The thresholds for unmarried filers with one or more children include the \$5,500 above-the-line amount.

Repeal or further limit most itemized deductions. Under current law, taxpayers can elect to itemize certain deductions rather than take the standard deduction. Amounts eligible for itemization include medical expenses, state and local taxes, mortgage and investment interest, charitable contributions, casualty and theft losses, employee business expenses, and certain miscellaneous items. Floors and caps apply to several of these items, and itemized deductions are phased out for high-income taxpayers.

The Camp plan would repeal the itemized deductions for medical expenses, non-business state and local taxes, personal casualty and theft losses, employee business expenses, and some miscellaneous expenses. The plan would also repeal the phase-out of itemized deductions for high income taxpayers. The deductions for mortgage interest and charitable contributions would be retained, but additional limits would be placed on both deductions.

Under current law, mortgage interest on debt incurred to buy, build or improve a principal residence or a second home (“acquisition debt”) may only be deducted on debt up to \$1 million. The Camp plan would gradually reduce the cap for new acquisition debt to \$500,000 over four years. Current law also allows a deduction for interest on “home equity debt” up to \$100,000. The Camp plan would end the deduction for interest on new home equity debt. In addition, mortgage interest would not be deductible in computing MAGI, so the 10-percent surtax would apply to mortgage interest. In effect, the tax benefit of the mortgage interest deduction for high-income taxpayers is capped at 25 percent of interest paid.

Current law does not impose a floor on the amount of charitable contributions that can be deducted, but it does limit deductions to a percentage of income that varies between 20 percent and 50 percent depending on the type of gift and type of charity, and contains a number of special rules for valuation of gifts of property and other contributions. The Camp plan would impose a floor of 2 percent of AGI on deductions, so only charitable contributions in excess of 2 percent of AGI would be deductible. The plan would also reduce the number of AGI-based caps, simplify the special valuation rules, and repeal certain special rules. In addition, the plan would extend the time for making an eligible contribution from December 31 of the previous year to the filing date of a return (April 15 for most taxpayers). As noted above, charitable contributions would be deductible in computing MAGI, so they could reduce the amount of income taxed at the top marginal rate of 35 percent.

Increase and expand the child tax credit. Under current law, taxpayers may claim a nonrefundable credit of \$1,000 per eligible child younger than age 17. This credit phases out at a 5-percent rate for joint filers with income above \$110,000, and other filers with income above \$75,000. The credit amount and phase-out income thresholds are not indexed for inflation. Taxpayers may also claim a refundable credit of 15 percent of earned income above \$3,000 (set to increase to \$13,350 after 2017, in 2013 dollars), up to the amount the nonrefundable credit exceeds tax liability. The sum of the nonrefundable and refundable credits cannot exceed \$1,000 per child.

The Camp plan would increase the tax credit for eligible children to \$1,500, raise the age limit by one year to cover 17 year olds, provide a corresponding credit of \$500 to non-child dependents, increase the refundable portion to 25 percent of earned income (from the first dollar of earned income after 2017), increase the phase-out thresholds to \$623,600 for joint filers and \$411,800 (in 2013 dollars) for other filers, and index the credit amounts and the phase-out thresholds for inflation using the chained CPI.

Modify the earned income tax credit (EITC). The EITC is a refundable tax credit for low-income taxpayers. The credit amount increases as wages rise at low levels, and then phases out after an income threshold is reached. The credit amount and income thresholds vary by filing

status and number of eligible children. Taxpayers with no eligible children must be over age 24 and under age 65 to qualify for the EITC. An eligible child must be younger than age 19, or younger than age 24 if a full-time student. Taxpayers with investment income over a certain threshold (\$3,300 in 2013) are ineligible for the EITC. Dollar parameters are indexed.

The Camp plan would modify all of the parameters of the EITC, index dollar parameters by the chained CPI, and reduce the eligibility age for children to younger than age 18. In addition, instead of the investment income threshold being a “cliff” for eligibility, the EITC would phase out at 100 percent of investment income over the threshold. Temporary provisions effective for tax years before 2018 would double the plan’s modified phase-in rate for taxpayers with children, and increase the plans’ modified maximum credits for taxpayers with one child and taxpayers with two (or more) children who do not file a joint return. The parameters of the EITC for taxable years beginning before 2018 under current law and under the Camp plan at 2013 dollar levels are shown in Figure 1.³



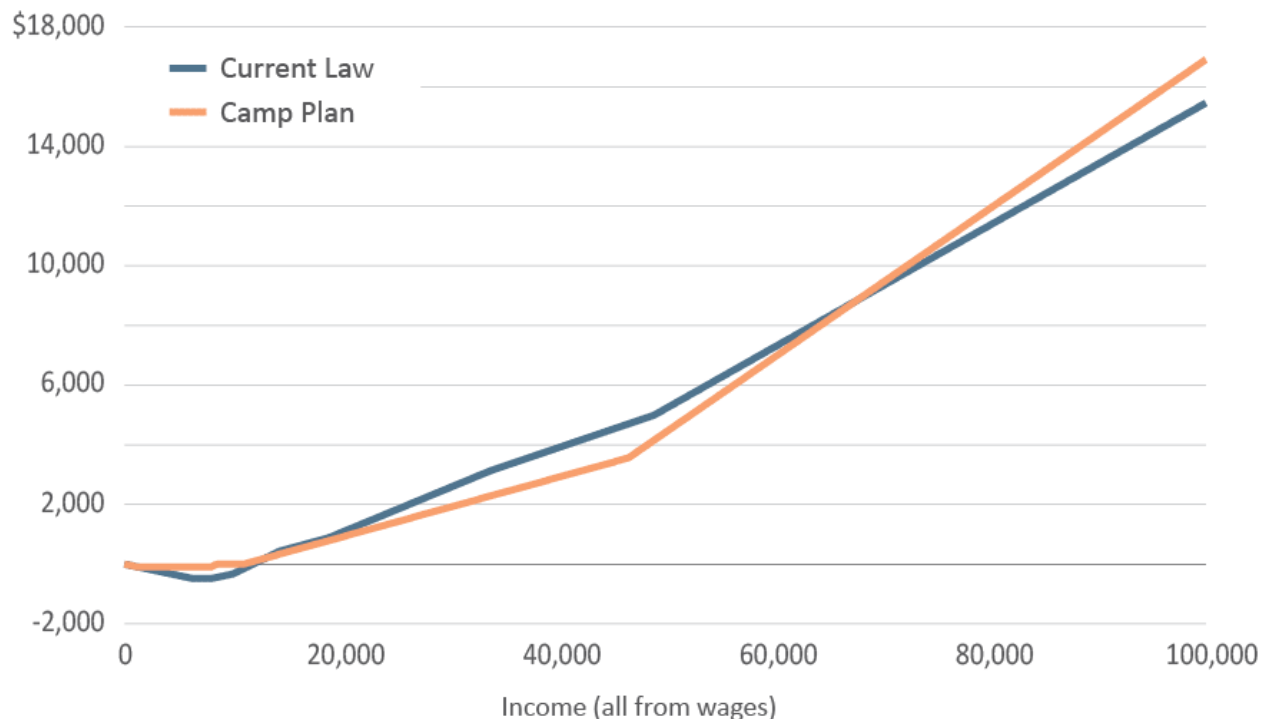
Figure 1 shows that the Camp plan would reduce the EITC for almost all families, except for some families with one child. The reduction is particularly large for families with three children. However, many families would benefit from the higher standard deduction, larger child tax credit, and broader 10-percent tax rate bracket under the Camp plan. Any analysis of overall effect of these changes on such taxpayers must account for all of the Camp provisions.

³ Appendix Table A-1 also provides the parameters for 2018 and thereafter (in 2013\$).

Figure 2 illustrates the combined effect of tax rates, the standard deduction, personal exemptions, and the EITC on a single filer with income only from wages. The filer is assumed to be over age 24 and under age 65 (so eligible for the childless EITC under both current law and the Camp plan), and to itemize deductions under current law when itemizing becomes advantageous.⁴



Figure 2. Income Tax Under Current Law and the Camp Plan for a Single Filer with No Children (2013\$)



Source: TPC Calculations

Up to about \$12,000 of income, the taxpayer pays more in taxes under the Camp plan, mostly because of the larger EITC under current law. When the single taxpayer’s income is between \$12,000 and \$47,000, however, the Camp plan is more beneficial than current law because of its larger standard deduction and wider 10-percent bracket. The 25-percent bracket begins at \$47,000 under the Camp plan, whereas under current law the taxpayer is still in the 15-percent bracket, so the tax cut under the Camp plan is gradually eliminated. Thus, the Camp plan would increase the taxpayer’s taxes relative to current law with income above about \$68,000.⁵

Figure 3 illustrates the combined effect of filing status, tax rates, the standard deduction, personal exemptions, the child tax credit, and the EITC on a single parent with one child and

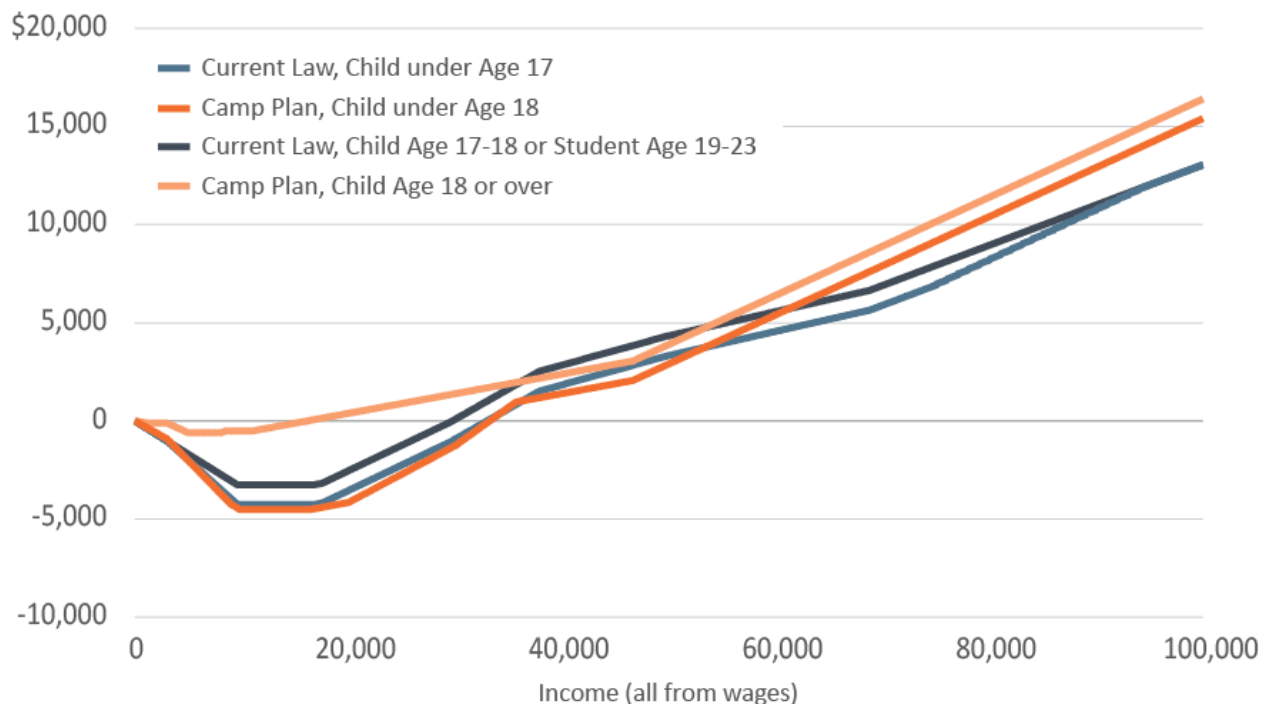
⁴ Itemizable deductions are assumed to be 18% of AGI and the current law standard deduction is \$6,100, so itemization becomes advantageous when income reaches $\$6,100/18\% = \$33,889$. Because most itemized deductions are repealed under the Camp plan and the remainder are further limited, a typical worker with income up to \$100,000 would not itemize under the Camp plan.

⁵ Our distributional analysis (discussed below) shows the effect of the Camp plan on tax burdens of single filers at all income levels (including incomes above \$100,000).

income only from wages.⁶ The graphs are based on child tax credit and EITC parameters (in 2013 dollars) prior to 2018, when some parameters change under both current law and the Camp plan. To capture the effects of changes in the eligibility age for child-related tax benefits under the Camp plan, two sets of graphs cover children of different ages. If the child is under age 17, the graphs show that for incomes up to about \$55,000, the combination of provisions in the Camp plan result in tax liabilities that are fairly similar to those under current law. But tax liabilities are higher under the Camp plan than current law above that income level, due primarily to the effect of entering the 25 percent bracket at a lower income. If the child is age 17 (compare the second and third lines in the legend), the Camp plan would reduce liabilities for those earning up to about \$61,000 of income (due primarily to making 17 year olds eligible for the child tax credit), but increase tax liabilities for those earning above that level (due to the 25-percent bracket). Children ages 18 and older are not eligible children for the EITC under the Camp plan, so liabilities would be much higher at lower income levels under the Camp plan (compare the bottom two lines in the legend). Between about \$37,000 and \$52,000 of income, the Camp plan would reduce tax liabilities somewhat for this single parent, but would increase them for those earning above \$52,000.



Figure 3. Income Tax Under Current Law and the Camp Plan for a Head of Household Filer with One Child Before 2018 (2013\$)



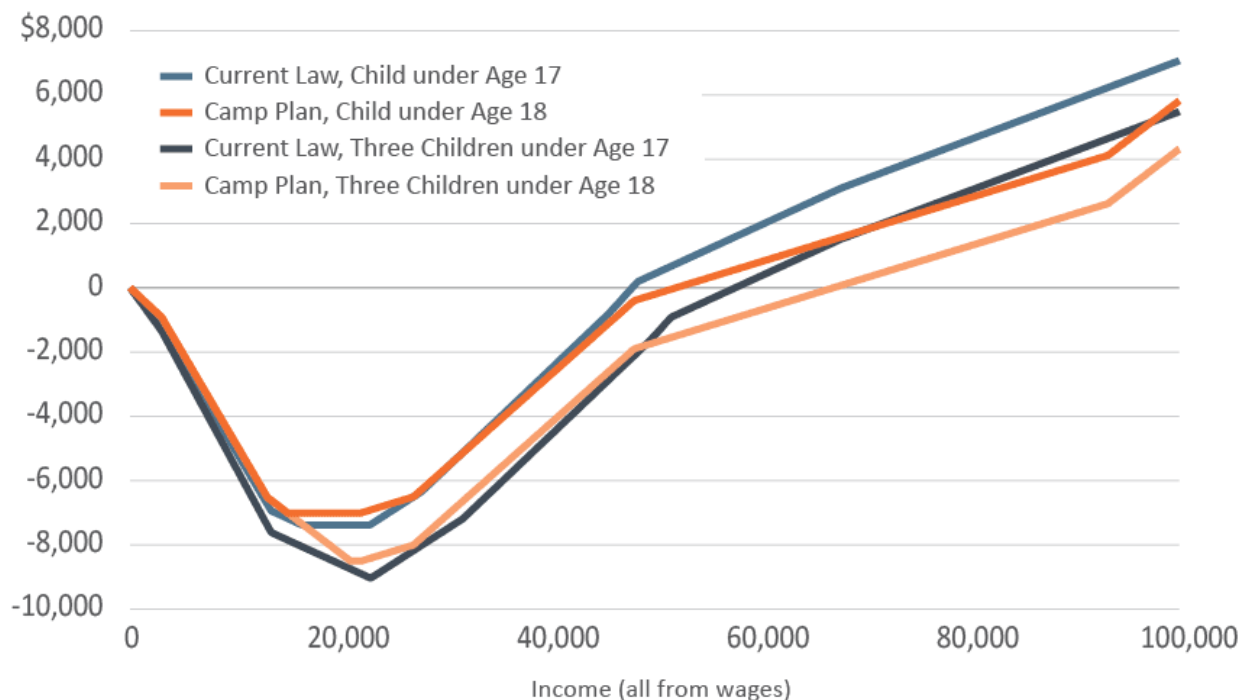
Source: TPC Calculations

⁶ The effect of the new above-the-line deduction for single parents is included in the graphs for the Camp plan. Under current law the single parent is assumed to file as a head of household and to itemize if it is advantageous (which occurs at $\$8,950/18\% = \$49,722$ of income).

Figure 4 illustrates the combined effect of all of the basic income tax provisions on a married couple filing jointly with two children or three children and income only from wages.⁷ As in Figure 3, the graphs are based on child tax credit and EITC parameters prior to 2018. For a couple with two children (compare first two lines in the legend), the larger EITC under current law results in somewhat larger tax refunds at lower incomes. Liabilities are similar for current law and the Camp plan between about \$26,000 and \$48,000 of income. At about \$48,000 the phase-out of the EITC ends under both current law and the Camp plan, and the tax rate is 15 percent under current law but only 10 percent under the Camp plan. Thus, there is a gradually increasing tax cut compared with current law under the Camp plan until the 25-percent bracket is reached at about \$93,000 of income. For a couple with three children, the EITC is considerably larger under current law, so refunds are lower under the Camp plan up to about \$49,000 of income, where the EITC ends. Above that level, however, the Camp tax rate is lower so the Camp plan becomes more advantageous, as it was for the family with two children.



Figure 4. Income Tax Under Current Law and the Camp Plan for a Married Couple with Two or Three Children Before 2018 (2013\$)



Source: TPC Calculations

Consolidate education incentives. Current law has an assortment of incentives for higher education. The American Opportunity Tax Credit (AOTC) provides each student a 100-percent credit for the first \$2,000 of tuition and related expenses and a 25-percent credit for the next \$2,000, for a maximum credit of \$2,500. The credit can be claimed for a student’s first four years of enrollment in a post-secondary degree or certificate program. Forty percent of the

⁷ Under current law the couple is assumed to itemize when it is advantageous (which occurs at \$12,200/18% = \$67,778 of income).

AOTC is refundable. The AOTC phases out between \$160,000 and \$180,000 of income for joint filers and half of those amounts for other filers. The AOTC is set to expire in 2017. Thus, the credit rates, maximum credit, and phase-out ranges will revert to the lower levels of the nonrefundable Hope credit, which is available only for a student's first two years of study. The Lifetime Learning credit (LLC) provides a nonrefundable 20-percent credit for up to \$10,000 of tuition and related expenses of the taxpayer and the taxpayer's spouse and dependents, for a maximum credit of \$2,000 for all students on the return. There is no limitation on the number of years the LLC can be claimed. The LLC phases out between \$110,000 and \$130,000 of income for joint filers and half of those amounts for other filers, with the ranges adjusted for inflation.

The Camp plan would permanently replace the Hope credit with the AOTC and repeal the LLC. The AOTC would be modified by reducing the income phase-out ranges to between \$86,000 and \$126,000 of income for joint filers and half those amounts for other filers, with the credit expense amounts and income ranges adjusted for inflation by the chained CPI. In addition, in computing the credit, recipients of Pell Grants could assume that the grants first went to cover expenses not eligible for the AOTC—primarily room and board—even if the educational institution nominally applied the grants to tuition. This will allow some students to claim a larger AOTC than under current law. The plan would also clarify that Pell grants are not taxable income.

Current law also allows an exclusion (subject to income limits) for interest on U.S. savings bonds used to pay higher education expenses, an above-the-line deduction (subject to income limits) for up to \$2,500 of interest paid on education loans, a deduction (subject to income limits) for up to \$2,000 contributed to a Coverdell education savings account, an exclusion for the discharge of student loan indebtedness, an exclusion for reductions in tuition provided to employees of certain educational organizations and their spouses and dependents, an exclusion of up to \$5,250 for employer-provided educational assistance (which applies for both income and payroll tax purposes), and an exception to the early withdrawal penalty for amounts withdrawn from retirement plans and Individual Retirement Accounts (IRA) that are used for educational expenses.

The Camp plan would repeal all of these provisions and it would not extend the above-the-line deduction (subject to income limits) for up to \$4,000 of tuition and related expenses that expired in 2013.

Significantly modify retirement saving incentives. Under current law, individuals can contribute up to \$5,500 (in 2013 dollars) to an IRA, plus an additional \$1,000 (in 2013 dollars) if the individual is age 50 or older. Contributions up to the lesser of compensation (including compensation of the individual's spouse) and these limits may be made to a traditional IRA or a Roth IRA (or both). Contributions to a traditional IRA are deductible regardless of income if the individual (and the individual's spouse) are not active participants in an employer-sponsored retirement plan, but the deduction is phased out for higher-income individuals who are active participants. Amounts withdrawn from traditional IRAs are fully taxable, and may also be subject to a 10-percent penalty if the withdrawal is made before age 59½. Contributions to a Roth IRA are not deductible, and high-income individuals may not contribute. Withdrawals of contributions from a Roth IRA are not taxable, and earnings are also not taxable if withdrawn

after five years or more. Contribution limits and the income limits for phasing out deductible contributions to traditional IRAs and contributions to Roth IRAs are all indexed for inflation.

Current law also allows employees to make elective deferrals to an employer's defined contribution plan, such as a 401(k). Contribution limits are \$17,500 (in 2013 dollars) plus \$5,500 (in 2013 dollars) if the employee is age 50 or older. Employers must offer a plan that allows pretax contributions, but can also offer a Roth plan that allows only after-tax contributions. Some plans also allow employers to make contributions, either as a match of employee contributions or as automatic (non-elective) contributions; these are always made on a pretax basis. Withdrawals from 401(k)-type plans are taxed in essentially the same way as withdrawals from corresponding (traditional or Roth) IRAs.

The Camp plan would significantly modify the rules for IRAs and 401(k)-type plans:

- Contributions to traditional IRAs would no longer be allowed.⁸
- The income limits on contributions to Roth IRAs would be removed.
- A new limit of half the total contribution limit would apply to pretax employee contributions to 401(k)-type plans for employees who work for employers with more than 100 employees. These new limits (in 2013 dollars) would be \$8,750 for younger workers and an additional \$2,750 for workers age 50 or older.
- Employers with no more than 100 employees would be permitted to only offer Roth 401(k)-type plans.
- Inflation adjustment of IRA and 401(k) contribution limits and certain other retirement saving limits would be suspended until 2024, when the base year for inflation adjustments would become 2022.

In addition, pretax contributions to traditional 401(k)-type plans would be included in MAGI, so the 10 percent surtax would apply to these contributions. The effect is to cap the tax benefit of these contributions at 25 percent.

Repeal the individual alternative minimum tax (AMT). The current individual AMT applies a separate tax rate schedule to a base that is broader than regular taxable income because certain deductions and exemptions are not allowed. Individuals pay the higher of their AMT liability or their regular tax liability. The Camp plan would repeal the individual AMT.

Other provisions. The Camp plan would repeal or amend a large number of other, generally more targeted, individual income tax provisions not described in the preceding sections. Repealed provisions include the credits for child and dependent care, adoption, residential energy efficient property, and plug-in electric vehicles, the deduction for alimony payments and the inclusion of alimony by recipients, the above-the-line deductions for most employee business expenses and for moving expenses, and the exclusion for employee achievement awards. The exclusions for gains on the sale of a principal residence and for transportation-related fringe benefits would be further limited.

⁸ Rollover contributions from traditional IRAs and from pretax 401(k)-type contributions would still be allowed.

Businesses

Under current law, the net income of businesses organized as sole proprietorships, partnerships, limited liability corporations (LLCs), and Subchapter S corporations is not taxed at the business entity level but instead is “passed through” to its owners and taxed under the individual income tax. The net income of regular (Subchapter C) corporations, in contrast, is taxed separately at the entity level under the corporate income tax, which has a rate schedule, AMT, and certain other rules that are separate from the individual income tax. However, most of the basic provisions that determine business net income subject to tax – rules for depreciation, capitalization and amortization of certain expenses, accounting methods, etc. – are the same for pass-through entities and C corporations.

The Camp plan would reduce the corporate income tax rate, repeal the corporate AMT, and significantly revise the international tax rules (which generally affect only C corporations). Other major provisions would generally increase net income subject to tax for both C corporations and pass-through businesses: slow depreciation deductions, require capitalization and amortization of certain expenses, restrict or repeal certain accounting methods, repeal the deduction for domestic production activities, and eliminate many targeted business preferences (described in Appendix B). Note that for pass-through businesses the effect of many of the base broadening provisions is also determined by the proposed individual income tax rates under the Camp plan.

Reduce the corporate income tax rate to 25 percent. Corporate income tax rates under current law are 15 percent on the first \$50,000 of taxable income, 25 percent on the next \$25,000 of taxable income, 34 percent on the next \$9,925,000 of taxable income, and 35 percent on taxable income over \$10 million. Surtaxes claw back the benefit of the 15-percent and 25-percent rates starting at \$100,000 of taxable income and of the 34-percent bracket starting at \$15 million of taxable income. Most corporate taxable income is taxed at the 35 percent rate.

The Camp plan would repeal the 15-percent rate and reduce the 34-percent and 35-percent rates to 25 percent over a five-year period.

Note that high-income owners of pass-through businesses (who are subject to individual income tax) would also pay a top rate of 25 percent on the net income from their businesses if the income qualifies as “qualified domestic manufacturing income,” which is deducted in computing MAGI for purposes of the 10-percent surtax.

Repeal the corporate AMT. The corporate AMT applies a separate rate of 20 percent to various items of tax preference. The amount of AMT paid is the excess of tentative AMT (tax liability computed under the AMT) over tax liability computed under the regular corporate income tax. AMT paid is allowed as a credit in subsequent years to the extent regular tax liability exceeds tentative AMT in the year.

The Camp plan would repeal the corporate AMT and allow previous AMT credits to be fully claimed by 2020.

International tax rules. A U.S. corporation may earn income from various sources outside the United States, such as exporting, direct production of goods and services abroad through foreign branches, production of goods and services abroad through foreign subsidiary corporations, lending to foreign persons, and renting or licensing real or intangible property abroad. Under current law, all income of U.S. corporations (and of U.S. citizens) is generally taxed as it is earned, regardless of whether the income is from sources within or outside the United States. The main exception to this “worldwide” system of taxation is that the U.S. tax on profits of most active business activities of foreign subsidiaries is deferred until those profits are distributed as dividends to the U.S. parent corporation (or realized as capital gains). There is an important exception to deferral, however: if a U.S. corporation controls a foreign subsidiary (i.e., the subsidiary is a “controlled foreign corporation” or CFC)⁹ and the CFC earns profits from certain transactions specified in subpart F of the Internal Revenue Code, those profits are deemed to be distributed as a dividend to the U.S. parent corporation and subject to U.S. tax. Subpart F applies generally to “passive” income and several other categories of transactions that can be used to shift profits from the U.S. parent or a related foreign subsidiary to a CFC. In recent years, however, “check-the box” regulations issued by the Treasury Department in 1997 have enabled U.S. multinational corporations to shift income to so-called “disregarded” entities that are not subject to subpart F rules.

In contrast, most of the United States’ major trading partners (including the United Kingdom, Germany, France, Japan and Canada) have “territorial” systems that generally exempt most active business income of the foreign subsidiaries of their multinational corporations. But these countries also have rules similar to the U.S. subpart F to tax certain forms of foreign-source income of their multinationals on an accrual basis.

Most foreign countries impose an income tax on income from activities within their borders, and many impose withholding taxes (typically at lower rates) on the gross amount of certain payments to foreign persons, such as interest, dividends, and royalties. Under current U.S. law, a credit is allowed for these foreign taxes against the U.S. tax on the income, so that the total tax paid on the income is at the higher of the foreign and U.S. rates. Actual and deemed dividends from foreign subsidiaries are “grossed up” to a pre-foreign income tax basis by adding the associated foreign income and withholding taxes to dividends, and a foreign tax credit is allowed for these foreign taxes against the U.S. tax on the grossed-up dividends. To insure that the foreign tax credit does not spill over and reduce the U.S. tax on income from activities within the United States (“U.S. source income”), the credit is limited to the U.S. tax imposed on foreign source income. Source rules determine whether a specific item of income is U.S. or foreign source, and whether a specific deduction is directly allocable to U.S. or foreign source income or must be apportioned by formula. The foreign tax credit is also computed separately for various types of income, which limits the extent to which excess credits on high-taxed foreign source income can spill over to reduce (or eliminate) the residual U.S. tax on low-taxed foreign source income.

The Camp plan would significantly change the international tax rules for corporations:

⁹ Generally, “control” requires direct, indirect or constructive ownerships of at least 50 percent of the stock of the foreign corporation.

- Dividend exemption system. Taxation of dividends from foreign subsidiaries would be greatly simplified and generally reduced, making U.S. rules similar to the territorial systems in other countries. Fully 95 percent of dividends would be excluded from taxable income. No credit would be allowed for any foreign tax on dividends.
- Accumulated earnings of foreign subsidiaries. A portion of the earnings of foreign subsidiaries accumulated after 1986 and before 2015 that had not been previously subject to U.S. tax would be considered Subpart F income and subject to tax at current law rates (i.e., generally 35 percent). A deduction of 75 percent would be allowed for the portion of these accumulated profits held in the form of cash, and 90 percent for the remaining portion. The deduction would reduce the effective rate to 8.75 percent on the cash portion and to 3.5 percent on the remainder. The related foreign tax credits would be proportionately reduced. Taxpayers could elect to spread the payment of this one-time U.S. tax (net of foreign tax credit) over eight years. All revenue from this provision would be allocated to the Highway Trust Fund.
- Revisions to subpart F. Intangible income earned by a foreign subsidiary would be added as a new form of Subpart F income, but only if such income was subject to a foreign tax rate below 15 percent.¹⁰ Intangible income would be defined as income in excess of a 10-percent return on invested business assets. The definition of certain existing forms of subpart F income would also be amended to depend on the applicable foreign tax rate, and other amendments would be made to subpart F.
- Deduction for foreign intangible income. This new deduction would make the U.S. tax rate on intangible income attributable to sales outside the United States 15 percent.¹¹ The deduction would apply to a U.S. corporation's intangible income from foreign sales as well as the portion of its deemed distributions of intangible income from foreign subsidiaries under subpart F due to foreign sales. Special rules would apply for determining the portions of intangible income due to foreign and U.S. sales. The U.S. portion of intangible income would not qualify for the deduction and would therefore face a 25 percent U.S. tax rate.

The Camp plan includes a number of other provisions affecting the international tax rules, but apart from the “dividend exemption system” described above, the basic structure of the rules under current law (worldwide taxation with a foreign tax credit) would be maintained.

The following major provisions would affect the determination of business net income subject to tax for both pass-through businesses and C corporations.

Slow depreciation deductions. Under current law businesses can depreciate investment in equipment and structures under the Modified Accelerated Cost Recovery System (MACRS). Each type of equipment is assigned to a MACRS class, which has a specified recovery period (three years, five years, etc.) and depreciation method (200 percent declining balance switching to straight line for the recovery periods up to 10 years, and 150 percent declining balance switching to straight line for 10- and 15-year recovery periods). Residential rental property is

¹⁰ The applicable foreign rate would vary somewhat from 15 percent as the U.S. corporate income tax rate was reduced to 25 percent.

¹¹ The applicable U.S. tax rate would vary somewhat from 15 percent as the U.S. corporate income tax rate was reduced to 25 percent and the deduction was reduced to 40 percent.

depreciated over 27.5 years and other structures are depreciated over 39 years, both using the straight-line method. Taxpayers may elect to use, and are required to use for AMT and certain other purposes, the Alternative Depreciation System (ADS), which has longer recovery periods and uses the straight-line method for all types of property.

The Camp plan would repeal the MACRS recovery periods and methods, and require the use of depreciation rules substantially similar to the ADS rules of current law for investment in equipment and structures made after 2014. A provision under the new depreciation system would allow an annual adjustment of the remaining undepreciated amount of prior-year investments for inflation (as measured by the chained CPI). These inflation adjustments would accelerate depreciation deductions relative to ADS.

Expand expensing for small businesses. Current law allows businesses to expense (deduct immediately) up to \$25,000 of investments in equipment, rather than recover the cost of the equipment over multiple years through depreciation. The \$25,000 expensing limit is phased out if the business invests over \$200,000 in equipment. Prior law has provided higher limits for expensing and its phase out, and covered some types of investment (such as computer software) that do not qualify under current law.

The Camp plan would increase the expensing limit to \$250,000, and the level at which the phase-out begins to \$800,000—the levels that were in effect for 2008 and 2009—index both amounts for inflation, and make computer software and certain other types of property eligible for expensing.

Require capitalization and amortization of certain expenses. Current law allows businesses to immediately deduct expenses for advertising and for research and experimentation, rather than capitalize those expenses and deduct them over the period that they generate income.

The Camp plan would require 50 percent of advertising expenses to be capitalized and amortized ratably over a 10-year period, with the remaining 50 percent expensed as under current law. The plan would also require all research and experimentation expenses to be capitalized and amortized ratably over five years. Both provisions would be phased in.

Restrict or repeal certain accounting methods. Current law allows certain small businesses to use the cash method of accounting, with income realized when received and expenses realized when paid. C corporations with average gross receipts over all prior years of over \$5 million and businesses that keep inventories generally must use the accrual method. However, certain personal service corporations may use the cash method even though they do not meet the gross receipts test. The Camp plan would allow all sole proprietors and all other businesses with average gross receipts over the preceding three years of \$10 million or less to use the cash method of accounting, and repeal the exception for certain personal services corporations. On balance, this provision is restrictive. Businesses that would no longer be eligible for the cash method would experience a one-time increase in income due to the change in the accounting method. These businesses could take this one-time increase in income into account over a four-year period that the taxpayer could elect to begin in 2019.

Current law allows taxpayers who purchase or produce items of inventory to account for the cost of inventory sold using several methods, including the last-in, first-out (LIFO) method and the more commonly used first-in, first-out (FIFO) method. When inventory costs are rising, taxable income is usually lower under LIFO than under FIFO.¹² The Camp plan would repeal the LIFO method and require taxpayers to revalue their inventories using FIFO (or another approved method). Closely held domestic businesses would only be required to include a portion (28 percent for C corporations and 20 percent for partnerships) of the income due to the revaluation of inventories. Any increase in income due to the provision could be taken into account over a four-year period that a taxpayer could elect to begin in 2019.

Repeal the domestic production activities deduction. Current law allows a deduction for 9 percent of the income from manufacturing, producing, growing, or extracting goods, producing movie or television shows, producing electricity, natural gas or potable water, constructing real property, and performing engineering or architectural services in the United States.¹³ The effect of this deduction is to reduce the top corporate rate on such income from 35 percent to 31.85 percent.

The Camp plan would gradually eliminate this deduction over a three-year period.

Employment Taxes

The Camp plan would modify the computation of payroll taxes on earnings from self-employment (SECA) and include more income from pass-through entities in the SECA base.

Modify computation of SECA deduction. Under current law, individuals subject to SECA are allowed a deduction for half of the SECA tax computed before the deduction. The deduction is intended to make the amount of SECA paid comparable to the amount of combined payroll tax paid by employers and employees on wages under FICA, since wages exclude the employer half of FICA. However, the computation of the deduction for SECA currently does not correctly take into account the effect of the exclusion of the employer share on the computation of FICA.

The Camp plan would modify the computation of the deduction for SECA so that it is fully consistent with the effect of the exclusion of the employer share on the computation of FICA, income tax, and earnings used for computing Social Security benefits.

Broaden application of SECA to income from pass-through entities. Under current law, SECA generally applies to all business income earned by a sole proprietor or by a general partner in a partnership. Limited partners are subject to SECA only on certain payments they receive for labor services they provide to the partnership. Limited liability companies (LLCs) are generally taxed as partnerships for federal purposes, but owners are not general or limited partners so the application of SECA to payments they receive is unclear under current law. Owners (shareholders) who work for a Subchapter S corporation are paid wages which are subject to

¹² LIFO can increase taxable income relative to FIFO when the net stock of inventories is being drawn down or when inventory costs are falling.

¹³ The deduction rate is 6 percent if the income is from oil-related activities.

FICA rather than SECA, and SECA does not apply to other income owners earn from the corporation.

The Camp plan would include in the SECA base all of the net income from pass-through entities of owners who materially participate in the entity. (Material participation typically requires working at least 500 hours a year.) A deduction of 30 percent would apply to this income for SECA purposes. The net income of owners who do not materially participate would not be subject to SECA. Owners of LLCs would be considered partners for SECA purposes. Investment income (e.g., interest, dividends, and capital gains) received from pass-through entities would continue to be excluded from the SECA base.

The Camp plan would also repeal the exclusions from payroll tax for certain foreign workers and students.

Other Provisions

The Camp plan would amend a number of provisions affecting nonprofits, tax administration and compliance, and repeal so-called “deadwood provisions” (such as the expired Making Work Pay credit) that have lost their relevance. The plan would also repeal the medical device excise tax enacted as part of the ACA, and impose a new excise tax on large financial institutions. The new excise tax would apply a quarterly rate of 0.035 percent to the total consolidated assets in excess of \$500 billion of “systemically important financial institutions” (large bank holding companies and certain other large financial institutions).

Analysis

Revenue Effects

The Joint Committee on Taxation’s (JCT) revenue estimates for all provisions in the Camp plan, for fiscal years 2014 through 2023, are shown in Table 4.

Table 4. JCT Revenue Estimates for the "Tax Reform Act of 2014", Fiscal Years 2014 - 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-23
All Provisions	-13.9	47.1	-18.5	6.9	-1.5	-17.2	-3.7	-0.2	11.5	-12.8	3.0

Source: Joint Committee on Taxation, JCX-20-14, February 26, 2014

The JCT estimates the plan would raise or lose relatively little revenue in any fiscal year, and be approximately revenue neutral over the entire 10-year period. The year-by-year revenue pattern is affected by several major provisions, noted above, that would allow taxpayers to spread the payment of liabilities incurred in one year over several succeeding years. The pattern is also affected by the phasing in or phasing out of some provisions over several years. These year-by-year effects on the pattern of revenues generally cannot be determined from the JCT estimates, but most of them apparently occur prior to 2023. However, revenue neutrality through 2023 is

not a predictor of long-term fiscal impact, and several provisions that front-load revenues raise red flags about future revenue losses.

Revenue Losses After 2023

Several provisions in the Camp plan have one-time revenue effects that will not be repeated after 2023. Some have sound policy justifications, but they all make the revenue situation look much rosier within the 10-year budget window than beyond it. These provisions include the one-time tax on the post-1986, pre-2015 previously untaxed earnings of foreign subsidiaries, which JCT estimates would raise \$170 billion over the 2014-2023 period. Other provisions would instantaneously increase revenues because they change the valuation of existing assets and thus expand taxable income in the first year of implementation. While these provisions have long-term revenue effects, their one-year revenue boosts are not repeated. These provisions include the repeal of LIFO, restrictions on the cash method of accounting, and changes to the computation of insurance company reserves. The depreciation and amortization provisions would generally slow deductions, in some cases significantly, and thereby also increase revenues much more initially than in the long run. For example, the provision to require capitalization and amortization over five years of research and experimentation expenses would allow 20 percent of such expenses to be deducted in the first year and delay the deduction of the remaining 80 percent, spreading it out equally over the next four years.¹⁴ If these expenses were constant over time, by the fifth year amortization of expenses incurred in the current and four prior years would just equal current year expenses; there would be no revenue gain from the provision. Even if such expenses grow over time, the revenue gain will fall significantly. Reform of depreciation deductions has a similar pattern, with large initial revenue gains followed by much smaller revenue gains that eventually result only from growth in the level of investment. Much of this slowing in the growth of revenues from these provisions will occur after 2023.

Two major provisions in the Camp plan affecting retirement saving would require all IRA contributions to be Roth (after-tax) and allow employees in large firms to make pretax contributions to 401(k)-type plans only up to half the current contribution limits, with the remaining half going to Roth plans. By denying or limiting current deductions for contributions while forgoing taxation of future withdrawals, these Roth provisions would effectively shift revenues from future years into the 2014-2023 period.

Some provisions of the Camp plan, however, would increase revenues relative to current law. Inflation adjustments would be made using the chained CPI, which rises more slowly than the CPI, used for indexing under current law. Further, several significant provisions that are temporary (or already expired) under current law, but that are likely to be repeatedly extended (or reestablished) in the future, are permanently extended under the Camp plan. Thus, the future revenue losses from these permanent provisions in the plan are not losses relative to current policy—although they are relative to current law (under which the provisions expire). Among these provisions are the higher limits on expensing for small businesses and the research and experimentation credit.

On balance, it is hard to tell whether revenues will increase or fall over the long run.

¹⁴ For simplicity, this description ignores the phase-in of this provision.

Distributional Effects

The distributional effects of all provisions in the Camp plan were estimated using the Urban-Brookings Tax Policy Center microsimulation model. The incidence assumptions underlying the estimates are that individual income taxpayers bear the burden of their individual income tax liabilities, workers bear the burden of both the employee and employer shares of the payroll tax in proportion to their earnings, the estate tax is borne by decedents, and the corporate income tax is borne 20 percent by labor, 20 percent by capital income recipients generally, and 60 percent by shareholders.

Estimates of the distributional effects in 2023, when the Camp plan is fully implemented, by filing status and expanded cash income percentile are shown in Table 5. Distributional effects are expressed as percentages of pre-tax income. The estimates show that the plan would reduce tax burdens on average in every quintile, for all tax units, with the largest reduction in the lowest income quintile and the smallest reduction in the top quintile. However, within the top quintile all of the reduction would go to the top 1 percent (and particularly the top 0.1 percent); the 80th through 99th percentiles would have increases in tax burden on average. Changes in average tax burdens for most income groups are relatively small, and the overall progressivity of the federal tax system would not be greatly altered.

Table 5. Distributional Effects of the Camp Plan by Filing Status and Expanded Cash Income Percentile in 2023
(taxes as a percent of expanded cash income)

Expanded Cash Income Percentile	All Tax Units			Filing Status ¹								
				Joint			Head of Household			Single		
	Current Law	Camp Plan	Change	Current Law	Camp Plan	Change	Current Law	Camp Plan	Change	Current Law	Camp Plan	Change
Lowest Quintile	4.4	3.7	-0.8	0.5	-0.6	-1.1	-4.9	-6.0	-1.1	6.9	6.1	-0.9
Second Quintile	8.5	8.0	-0.5	8.0	7.5	-0.5	5.6	5.8	0.2	8.8	8.4	-0.5
Third Quintile	14.8	14.5	-0.3	12.6	11.9	-0.8	13.7	14.5	0.8	13.1	12.1	-0.9
Fourth Quintile	17.2	16.9	-0.3	16.2	15.6	-0.6	17.9	19.9	2.0	18.2	18.0	-0.2
Top Quintile	25.8	25.7	-0.1	25.3	25.3	-0.1	25.3	26.2	0.9	25.5	25.7	0.2
All	20.2	20.0	-0.2	21.6	21.3	-0.3	12.1	12.7	0.6	18.7	18.5	-0.2
Addendum												
80-90	19.4	19.9	0.4	19.1	19.4	0.3	20.8	23.0	2.1	20.5	21.2	0.7
90-95	21.3	22.1	0.7	20.8	21.4	0.6	23.0	24.6	1.5	21.2	22.3	1.1
95-99	24.3	24.5	0.2	23.9	24.2	0.4	24.3	25.1	0.9	24.1	24.5	0.4
Top 1 Percent	33.3	32.4	-1.0	32.9	32.0	-0.9	32.8	31.9	-0.9	34.9	33.9	-0.9
Top 0.1 Percent	35.3	33.5	-1.8	35.0	33.3	-1.8	35.0	33.2	-1.8	37.4	35.9	-1.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

¹ Tax units are adjusted for family size in these distributions.

For joint and single tax units, the pattern of distributional effects is similar to the overall pattern for all tax units. However, head of household units would be affected quite differently. The Camp plan would increase taxes on average for head of household units in all but the lowest income quintile; joint and single units receive a tax cut in all quintiles. And the tax increases for head of household units in the 80th through 99th percentiles would be larger than the increases for

joint and single tax units. Tax increases for head of household units are primarily the result of repealing their special filing status, which provides a larger standard deduction and a more favorable tax rate schedule than for other unmarried taxpayers.

Note that several provisions of the EITC and the child tax credit under current law expire after 2017, so are not reflected in the estimates in Table 5. However, some of the EITC provisions in the Camp plan also expire after 2017. To help illustrate the effect of these provisions on representative taxpayers, Appendix C provides an analysis similar to that proved in Figures 3 and 4, but using the EITC and child tax parameters that would be in effect under current law and the Camp plan beginning in 2018.

Effective Marginal Tax Rates

Incentives to undertake additional work, saving, risk, and other economic activities are affected by the tax rate that applies to the return from each of these additional activities. These tax rates are referred to as effective marginal tax rates (EMTRs). They reflect applicable statutory rates, phase-ins and phase-outs, and other features of the tax law that in combination determine how much taxes would be changed by the additional activity.

Statutory rates under the Camp plan are discussed above, and shown along with the current law statutory rates on ordinary income in Table 1. Rate brackets, however, are not quite comparable between current law and the Camp plan because it would alter the definition of taxable income in important ways. Furthermore, the top (35-percent) rate bracket in the Camp plan is based on MAGI rather than taxable income.

Both current law and the Camp plan contain a number of provisions in addition to statutory tax rates that affect EMTRs. The Camp plan would repeal the personal exemption phase-out (PEP), the limitation on itemized deductions (Pease), and the individual AMT. All of these changes would reduce marginal tax rates for affected taxpayers.¹⁵ However, the Camp plan would also introduce a number of new phase-outs that would increase marginal rates rather significantly for certain taxpayers.

- Phase-out of the standard deduction amount. The proposed standard deduction would phase out at a 20-percent rate for joint filers starting at MAGI (in 2013 dollars) of \$513,600 (\$356,800 for other taxpayers). Itemized deductions are reduced by the same amount as the standard deduction. This phase-out would only apply to taxpayers in the

¹⁵ In 2013, PEP applied to joint filers with AGIs starting at \$300,000 (\$250,000 for single filers and \$275,000 for head of household filers). PEP phases out the deduction for personal exemptions over a \$122,500 range (in steps), increasing taxable income (on average) by $\$3,900/\$122,500 = .0318$ for each \$1 increase in AGI for each personal exemption. So, for example, PEP would increase the marginal tax rate on a married couple with two children in the PEP phase-out range with a statutory rate of 33% by $33\% \times .0318 \times 4 = 4.2\%$, to 37.2%. Pease phases out up to 80 percent of certain itemized deductions by 3 percent of AGI starting at the same AGI levels as PEP. So, for example, Pease would increase the marginal tax rate on a married couple subject to Pease with a statutory rate of 33% by $33\% \times .03 = 0.99\%$, to 33.99%. The AMT exemption phases out at a 25 percent rate for joint taxpayers starting at alternative minimum taxable income of \$153,900 (\$115,400 for single and head of household filers). This phase-out increases AMT rates by $26\% \times 25\% = 6.5\%$ to 32.5% and by $28\% \times 25\% = 7\%$ to 35%. All of these phase-outs also increase the special rates on capital gains and dividends.

35-percent bracket, increasing their marginal rate in the phase-out range by 7 percentage points (35 percent x 20 percent) to 42 percent.

- Phase-out of the new above-the-line deduction for unmarried taxpayers with one or more children. The proposed \$5,500 above-the-line deduction for unmarried taxpayers with one or more children would phase out dollar for dollar starting at \$30,000 of AGI. This phase-out would double the 10-percent rate to 20 percent for affected taxpayers.
- Phase-out of the benefit of the 10-percent rate. The tax benefit of the 10-percent rate (defined as the tax savings from applying a 10-percent, rather than a 25-percent, rate in the 10-percent bracket) would be phased out by applying a 5-percent surtax to joint filers starting at MAGI of \$300,000 (\$250,000 for other taxpayers). This phase-out would apply to joint filers in both the 25-percent and 35-percent brackets, increasing their marginal rates in the phase-out range to 30 percent and 40 percent. The phase-out would apply to single taxpayers, but only to those in the 25-percent bracket, increasing their marginal rate in the phase-out range to 30 percent.
- Phase-out of exclusion for gain on home sales. The current exclusion of up to \$500,000 for joint filers (\$250,000 for single and head of household filers) for gains on home sales would be phased out dollar for dollar for joint filers starting at \$500,000 of MAGI (\$250,000 for other taxpayers). Because a 40 percent deduction is allowed for taxable capital gains, this phase-out would increase marginal tax rates by 60 percent. For taxpayers subject to no other phase-outs, this phase-out alone would increase marginal rates from 35 percent to 56 percent (35 percent x 1.6 = 56 percent). Affected taxpayers that were also subject to other phase-outs would have even higher marginal tax rates. For example, joint filers in the 35-percent bracket who were also subject to the phase-out of the benefit of the 10-percent rate would have a marginal rate of 64 percent (40 percent x 1.6 = 64 percent), and taxpayers also subject to the phase-out of the standard deduction amount would have a marginal rate of 67.2 percent (42 percent x 1.6 = 67.2 percent).¹⁶

In addition to these new phase-outs, the Camp plan would retain the 5-percent phase-out of the child tax credit, although it would start at higher income levels than under current law.¹⁷ The plan would also retain the surtaxes enacted as part of the ACA of 0.9 percent on the wages and 3.8 percent on the net investment income of high-income taxpayers. Note that the 3.8 percent surtax applies to the lesser of (i) net investment income and (ii) AGI in excess of a threshold.¹⁸ Under the Camp plan, AGI reflects the 40 percent deduction for capital gains and dividends but net investment income does not.¹⁹ For taxpayers with income primarily from capital gains and dividends, the surtax will apply to AGI over the relevant threshold. For such taxpayers only 60 percent of gains and dividends would be subject to the surtax, and the marginal effective surtax rate would be 2.28 percent (60 percent x 3.8 percent = 2.28 percent).

¹⁶ The phase-out of the child tax credit would begin at the end of the phase-out of the standard deduction amount and also be at a 5-percent rate, so the 67.2% combined phase-out rate would apply to taxpayers in the child tax credit phase-out as well.

¹⁷ Currently, the phase-out begins at \$110,000 for joint filers and \$75,000 for other filers (unindexed); under the Camp plan the phase-out would begin at \$623,600 for joint filers and \$411,800 for other filers (both are in 2013 dollars).

¹⁸ The thresholds in 2013 were \$250,000 for joint filers, \$200,000 for single and head of household filers, and \$125,000 for married filing separate filers.

¹⁹ The legislative language for the Camp plan defines net investment income from capital gains and dividends to be pre-deduction, but does not add back the deduction to AGI for the calculation.

The combined effect of statutory rates, the above phase-outs, and other provisions of the Camp plan on the EMTRs on wages and three forms of capital income were estimated using the Urban-Brookings Tax Policy Center microsimulation model. Estimates are expressed as percentages or percentage point changes in EMTRs. Note that under both current law and the Camp plan the EMTRs on wages include the 0.9 percent ACA surtax as well as payroll and income taxes, and for all three forms of capital income the EMTRs include the effect of the ACA surtax on net investment income.

The estimates (Table 6) show that overall EMTRs on wages and all three forms of capital income would be reduced by the Camp plan, but only for wages and interest are EMTRs reduced in every income group. For wages, the reductions are significant in the bottom two quintiles and very large for the top 1 percent. For interest income, the reductions are significant only for the second quintile and throughout the top quintile. The statutory rate on both capital gains and dividends would increase for taxpayers in the 10 percent bracket under the Camp plan because with a 40 percent deduction the rate would be 6 percent, compared to 0 percent under current law. As a result, EMTRs on capital gains and dividends increase in the bottom four quintiles. But EMTRs on capital gains and dividends would be reduced throughout the top quintile, especially for taxpayers in the 90th to 99th percentiles, even though these taxpayers would typically be subject to a 15 percent statutory rate under both current law and the Camp plan. The higher EMTRs under current law are primarily due to the effects of PEP, Pease, and the phase-out of the AMT exemption. For the top 1 percent and top 0.1 percent of tax units, the top statutory rates on capital gains and dividends, including the surtax on net investment income, would be 23.8 percent under current law and 24.8 percent under the Camp plan. But phase-outs (primarily Pease) increase the current law rate, and the net investment income surtax rate on capital gains and dividends is often reduced to 2.28 percent under the Camp plan. As a result, the EMTR on both capital gains and dividends would be lower under Camp than under current law for the top 1 percent and the top 0.1 percent of tax units, in spite of the higher statutory rate.

The calculations in Table 6 apply standard methods for estimating federal EMTRs, but they overstate the improvement in work and saving incentives from proposals that reduce statutory federal marginal tax rate and broaden the tax base. To the extent that use of tax preferences that are scaled back increase with increases in earnings and investment income, the increased incentive to earn more income from lower tax rates is offset by the increased taxes that must be paid on previously tax-favored uses of the income.

This can be most easily illustrated by looking at the combined effect on federal marginal rates and state and local marginal rates, when the federal marginal rate is reduced and the deduction for state and local taxes is eliminated, as it is under the Camp plan. For example, a taxpayer subject to a 39.6 percent federal rate on wages under current law and an 8 percent state income tax rate would face a state income tax EMTR of only 4.8 percent.²⁰ But if the reduction of the top federal rate to 35 percent is combined with the repeal of the deductibility of state and local taxes, the taxpayer's state income tax EMTR is the full 8 percent. Thus, the reduction in the combined federal and state rate is from 44.2 percent to 43 percent – a reduction of only 1.2 points in the combined rate, compared with the 4.6 point reduction in the federal rate. Taking just the effects of removing the state and local income tax deduction into account, the overall

²⁰ The EMTR is $8\% \times (1 - 39.6\%) = 4.8\%$.

Table 6. Effective Marginal Tax Rates on Wages and Capital Income under Current Law and the Camp Plan in 2023¹

Expanded Cash Income Percentile	Wages			Capital Income								
				Long-term Capital Gains			Qualifying Dividends			Interest Income		
	Current Law	Camp Plan	Change	Current Law	Camp Plan	Change	Current Law	Camp Plan	Change	Current Law	Camp Plan	Change
Lowest Quintile	4.5	2.8	-1.7	0.9	2.1	1.2	0.6	1.9	1.3	4.9	4.8	-0.1
Second Quintile	15.5	14.2	-1.4	2.2	5.6	3.4	3.2	7.0	3.8	14.6	13.1	-1.5
Third Quintile	19.3	19.0	-0.3	8.3	9.8	1.5	11.2	13.0	1.8	22.2	22.1	-0.1
Fourth Quintile	20.6	20.1	-0.5	9.7	10.4	0.8	11.8	13.6	1.8	22.8	22.4	-0.4
Top Quintile	31.7	29.3	-2.4	22.4	20.8	-1.6	22.7	21.1	-1.5	35.2	33.1	-2.2
All	25.1	23.5	-1.6	20.9	19.5	-1.4	19.9	19.1	-0.8	27.6	26.1	-1.5
Addendum												
80-90	25.3	24.9	-0.4	14.3	12.9	-1.3	15.3	14.5	-0.8	27.1	25.2	-1.9
90-95	27.7	25.3	-2.5	17.5	14.1	-3.4	18.6	15.5	-3.1	29.8	26.6	-3.2
95-99	32.8	30.8	-2.0	21.1	17.8	-3.3	22.7	20.0	-2.7	35.0	33.2	-1.9
Top 1 Percent	39.8	35.2	-4.6	23.5	22.3	-1.2	24.3	23.2	-1.1	38.6	36.4	-2.1
Top 0.1 Percent	40.4	35.2	-5.2	23.9	22.6	-1.3	24.4	23.1	-1.3	38.4	36.1	-2.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

¹ Calendar year. Each tax unit's EMTR for each source of income is calculated by adding \$1,000 to the amount of income from that source, calculating the resulting change in taxes, dividing that resulting tax change by \$1,000, and finally weighting that effective marginal rate by the initial amount of income from that source. The table reports the sum of these EMTRs by income group.

reductions in EMTRs under the Camp plan would all be smaller, and possibly converted to overall increases in EMTRs. Results by income percentile would likewise be altered.

Elimination and reduction of other preferences, such as the exclusion for health insurance, the deduction for charitable contributions, and the exemption of municipal bond interest, would similarly have adverse effects on incentives to work and save. The effects would vary based on the income elasticity of use of the preference; if, at the margin, use of the tax preference increased more with income, then the improvement in work and saving incentives from the Camp plan would be smaller.²¹

Effects on Incentive to Make Charitable Contributions

Charitable contributions represent a use of income that would continue to receive favorable tax treatment under the Camp plan, but a considerably less favorable treatment than under current law. This less favorable treatment is due to four main provisions in the Camp plan. One is the imposition of a floor on deductions of 2 percent of AGI. Nearly 60 percent of current itemizers do not make contributions in excess of 2 percent of AGI, but the contributions over 2 percent of AGI represent over 60 percent of the total contributions made by itemizers, and over 50 percent of all contributions by individuals.²² Two other provisions would indirectly affect itemization of charitable contributions by greatly reducing the number of itemizers: the large increases in

²¹ See Jane G. Gravelle and G. Thomas Woodward, "Clarifying the Relation Between Base-Broadening and Effective Marginal Tax Rates," presented at National Tax Association meetings, November 2012.

²² These are 2013 estimates from TPC's microsimulation model.

standard deduction amounts for most taxpayers, and the repeal of all non-business itemized deductions except those for mortgage interest and charitable contributions. Finally, the general reduction in marginal tax rates would likely increase the after-tax cost of making a charitable contribution.²³

The combined effect of the provisions of the Camp plan on the cost of contributing an additional \$1 to charity is shown in Table 7. For example, under current law a gift of \$1 to a charity for someone in the top 1 percent group on average only costs a donor \$0.67, with the rest of the donation coming from the donor’s tax savings. For all income groups, the cost of giving to charity would increase under the Camp plan, with the largest increases in the top quintile. Within the top quintile, the largest increase would be for taxpayers in the 90th to 95th percentile, who would have an average increase in the cost of giving of \$0.16 per \$1 of giving, and increase of $\$0.16/\$0.74 = 21.6$ percent. These increases in the after-tax cost of giving (often referred to as the “price of giving”) would discourage charitable contributions. However, income groups that would experience tax cuts (and in particular the top 1 percent) would have more after-tax income, which would encourage contributions.

**Table 7. After-Tax Cost of Giving \$1 to Charity
under Current Law and the Camp Plan in 2023**

Expanded Cash Income Percentile	Current Law	Camp Plan	Change
Lowest Quintile	\$0.99	\$1.00	\$0.01
Second Quintile	\$0.96	\$0.99	\$0.03
Third Quintile	\$0.88	\$0.96	\$0.08
Fourth Quintile	\$0.84	\$0.95	\$0.10
Top Quintile	\$0.71	\$0.83	\$0.12
All	\$0.77	\$0.88	\$0.11
Addendum			
80-90	\$0.78	\$0.93	\$0.14
90-95	\$0.74	\$0.90	\$0.16
95-99	\$0.69	\$0.83	\$0.14
Top 1 Percent	\$0.67	\$0.76	\$0.10
Top 0.1 Percent	\$0.67	\$0.76	\$0.08

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

²³ Reductions (increases) in statutory rates increase (decrease) the after-tax cost of giving, but reductions or increases in effective rates due to the removal or addition of phase-ins or phase-outs based on income (e.g., AGI or MAGI) only change the cost of giving if giving reduces income. Changes in statutory marginal tax rates on income are therefore not necessarily a guide to changes in the after-tax cost of giving. Note that under the Camp plan giving (in excess of 2% of AGI) reduces MAGI, so does affect marginal tax rates due to the phase-outs based on MAGI.

Investment Incentives

The Camp plan would have conflicting effects on the incentives for business investment. The reduction in the top corporate income tax rate, and the general reduction in the individual income tax rates paid on net income from pass-through businesses and on capital gains and dividends, would increase after-tax returns to business investment. However, part of the rate reductions on many forms of business income would be offset by the repeal of the domestic production activities deduction. The plan would also raise effective tax rates on the return to new investment by requiring slower methods and longer periods for depreciation, the capitalization and amortization of some investment expenses that are currently written off immediately, and longer amortization periods for certain other investments. Slower cost recovery increases the cost of new investments. Other provisions that broaden the business tax base, such as accounting changes and the repeal of many business credits, would also increase the cost of capital. Taking all of these effects into account, an analysis by JCT indicates that the Camp plan would reduce the incentive for investment in the domestic capital stock.²⁴

Compliance Costs

Compliance with the tax law requires individuals and businesses to learn about their tax obligations, keep records, file returns, and interact with the IRS if questions arise about their returns. Estimates of the cost of these compliance activities vary, but they are likely in the range of \$100 billion to \$200 billion per year.²⁵ Simplification of the tax law, which would reduce these costs, is a key objective of all major tax reforms, including the Camp plan. The plan succeeds in significantly simplifying the income tax in important ways, but a few provisions would add new complexities.

The following provisions of the Camp plan would simplify the individual income tax:

- **Many fewer itemizers.** The plan would increase standard deduction amounts for most taxpayers, repeal most non-business itemized deductions, and place further limitations on the remaining deductions for mortgage interest and charitable contributions. In combination, these provisions would nearly eliminate itemization. As a result, few taxpayers would need to keep records or perform calculations just for the purpose of itemizing relevant expenses, such as charitable contributions or out-of-pocket medical expenses.
- **Repeal of personal exemptions.** Personal exemption amounts for taxpayers would be replaced by higher standard deduction amounts, personal exemptions for most children would be replaced by an increase in the child tax credit, and the personal exemption phase-out would become irrelevant (and so be repealed). As such, the elimination of personal exemptions would provide important simplifications for most taxpayers by eliminating a calculation. However, for some children and other dependents, the personal

²⁴ See the letter of February 21, 2014 from Thomas A. Barthold, Chief of Staff of the Joint Committee on Taxation, to Ways and Means Chairman Dave Camp.

²⁵ See, for example, the President's Advisory Panel on Federal Tax Reform (2005), *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System* (page 35) and "Tax Simplification: How costly is complexity?" at <http://www.taxpolicycenter.org/briefing-book/improve/simplification/cost.cfm>.

exemption would effectively be replaced by a new credit that would have similar compliance costs.

- Repeal of head of household filing status. The rules for qualifying as a head of household can be complicated for taxpayers to learn about and comply with as their family status changes. Eliminating this filing status would provide simpler choices for many current (and future) head of household filers and potential filers. But the new above-the-line deduction for unmarried taxpayers with at least one child would retain elements of the head of household rules.
- Consolidation of education incentives. Choosing among the panoply of education tax incentives under current law is complex. The plan would eliminate most of the complexity by replacing all current credits with a revamped AOTC and eliminating most other education incentives.
- Repeal of the individual AMT. The AMT requires a separate set of tax calculations in addition to the regular income tax, and many taxpayers are required to make those calculations even though they ultimately have no AMT liability. This makes it difficult for many taxpayers to know what tax breaks they are eligible for or how much taxes they would pay on an additional dollar of income, muddling economic incentives. Although the AMT was originally targeted at high-income people, millionaires are less likely to be affected by the tax than those with more modest incomes who are less able to cope with the compliance burdens. Repeal of the AMT would remove these compliance burdens and inequities.
- Other simplifications. The plan would repeal many energy-related and other tax credits, repeal the phase-out of itemized deductions (Pease), repeal many above-the-line deductions, and make other simplifications to the individual income tax.

Offsetting some of this simplification for individuals are a few new complexities. The 35-percent rate would be the combination of a 25-percent rate on taxable income and a 10-percent surtax on “modified adjusted gross income.” This approach requires computation of a separate tax base (MAGI), which adds complexity. However, this approach is simpler than the proposed 28-percent limitation on the value of certain tax expenditures included in President Obama’s budget submissions, as well as several other recent proposals to limit the cost of tax expenditures.²⁶

The various new phase-outs also add complexity for affected taxpayers, most of whom would be high-income, but some low-income single parents would also be subject to the phase-out of their new above-the-line deduction. The shift to Roth IRAs and the partial shift to Roth 401(k)-type plans would mean that many taxpayers would have both traditional and Roth retirement accounts, with different rules for the tax treatment of contributions and withdrawals as well as other differences in rules. These differences would add complexity to retirement saving decisions and tax compliance throughout workers’ lifetimes.

²⁶ See Eric J. Toder, Joseph Rosenberg, and Amanda Eng, “Evaluating Broad-Based Approaches for Limiting Tax Expenditures,” Tax Policy Center, 2013. <http://www.taxpolicycenter.org/UploadedPDF/412857-Evaluating-Broad-based-Approaches-for-Limiting-Tax-Expenditures.pdf>.

The Camp plan would also simplify taxation of business income in several ways. Repeal of the corporate AMT and of many business credits would provide simplification. Repeal of the domestic production activities deduction would also provide simplification, partially offset by the addition of a similar manufacturing deduction for purposes of computing MAGI for the 10-percent surtax. Whether the new international tax rules would curtail tax planning and other compliance costs is not clear; although the U.S. rate on much foreign-source income would be reduced, even small rate differentials can make tax planning worthwhile. And foreign countries are likely to amend their tax laws in response to any U.S. reform like the Camp plan, setting off a new round of tax planning. It also seems likely that considerable resources would be devoted to developing and implementing tax minimization strategies based on the new differentials between tax rates on pass-throughs, corporations, dividends, and capital gains.

Conclusions

Ways and Means Committee Chairman Dave Camp's "Tax Reform Act of 2014" is a comprehensive plan that would pay for reduced income tax rates with base broadening measures and some reforms of payroll and excise taxes.

The Camp plan in many ways embodies the fundamental goals of income tax reform:

- It is revenue neutral over the 10-year budget period.
- Overall, it is roughly distributionally neutral.
- Generally lower effective marginal tax rates reduce many of the distortive effects of tax preferences.
- Simplifications of many provisions and elimination of many tax incentives would likely reduce compliance costs for individuals and businesses.

In addition, the plan brings together a number of fresh ideas for tax reform, such as folding personal exemptions into the standard deduction and the child tax credit, and limiting tax preferences through the 10-percent surtax. These new ideas will likely become building blocks for future tax reform plans.

Like most tax reform proposals, the Camp plan has some drawbacks:

- Tax burdens would be shifted in ways that may not be seen as fair, such as increasing tax burdens for families with older children.
- Incentives for domestic investment would be reduced.
- New phase-outs would impose quite high marginal tax rates on some taxpayers.
- New complexities would be introduced.
- It could result in revenue losses outside the 10-year budget window.

Ultimately, however one weighs the pros and cons of the Camp plan, it is certainly a giant step along the (seemingly endless) road to tax reform.

Additional Materials on the Camp Plan

Links to additional TPC, JCT and Ways and Means Committee Staff materials on the Camp plan are available at: http://www.taxpolicycenter.org/taxtopics/Camp_Tax_Reform_Plan.cfm

**Appendix Table A-1. EITC Parameters for Taxable Years Beginning Before 2018
Under Current Law and the Camp Plan in 2013\$**

Parameter	No Children		One Child		Two Children		Three or More Children	
	Current Law	Camp Plan	Current Law	Camp Plan	Current Law	Camp Plan	Current Law ¹	Camp Plan ²
<i>Joint Filers</i>								
Phase-in rate	7.65%	7.65%	34%	30.6% ^a	40%	30.6% ^a	45%	30.6% ^a
Max credit (\$)	487	200	3,250	3,000 ^b	5,372	4,000	6,044	4,000
Phase-out begins (\$)	13,310 ^c	13,000	22,870 ^c	27,000	22,870 ^c	27,000	22,870	27,000
Phase-out rate	7.65%	19% ^d	15.98%	19% ^d	21.06%	19% ^d	21.06%	19% ^d
Phase-out ends (\$)	19,680 ^c	14,053	43,210 ^c	42,789	48,378 ^c	48,053	51,567	48,053
<i>Other Filers</i>								
Phase-in rate	7.65%	7.65%	34%	30.6% ^a	40%	30.6% ^a	45%	30.6% ^a
Max credit (\$)	487	100	3,250	3,000 ^b	5,372	4,000 ^e	6,044	4,000 ^d
Phase-out begins (\$)	7,970	8,000	17,530	20,000	17,530	20,000	17,530	20,000
Phase-out rate	7.65%	19% ^d	15.98%	19% ^d	21.06%	19% ^c	21.06%	19% ^d
Phase-out ends (\$)	14,340	8,526	37,870	35,789	43,038	41,053	46,227	41,053

¹ The higher EITC for three or more children under current law expires for taxable years beginning after 2017.

² The EITC for three or more children is the same as for two children under the Camp plan.

^a The phase-in rate is reduced to 15.3% for taxable years beginning after 2017.

^b The maximum credit is reduced to \$2,400 for taxable years beginning after 2017.

^c The increase in the beginning (and end) of the phase-out range for joint filers relative to single filers is reduced for taxable years beginning after 2017 from \$5,340 (in 2013\$) to \$3,340 (in 2013\$).

^d The EITC is also reduced by investment income in excess of a threshold (\$3,300 in 2013).

^e The maximum credit is reduced to \$3,000 for taxable years beginning after 2017.

Appendix B: Other Important Business Provisions in the Camp Plan

In addition to the business reforms described above, the Camp plan would amend, repeal, or enact a large number of other provisions affecting businesses.

Corporate net operating losses (NOLs). An NOL is the excess of business expenses over business receipts. NOLs can generally be used to reduce taxable income in the preceding two years and subsequent 20 years.

The Camp plan would limit the deduction for corporate NOLs to 90 percent of taxable income (before the NOL deduction) in any carry back or carry over year.

Insurance company reserves. The Camp plan would require life insurance companies to use a higher discount rate in determining changes in their reserves (increases are deductible and decreases are included in income). The plan would also amend the discounting rules for property and casualty company reserves by modifying the discount rate, extending the period over which losses are expected to be paid, and repealing the election for companies to use their historical loss payment pattern. Increases in income due to these provisions would be taken into account ratably over eight years.

Repeal like-kind exchanges. The exchange of property is generally treated as a sale under current law, with any gain taxed at the time of the exchange. However, if certain business and investment property is exchanged for a similar (“like-kind”) property, taxation of the gain is deferred. The like-kind exchange rules apply to many types of business and investment property, but not to property held primarily for sale or to financial instruments.

The Camp plan would repeal the like-kind exchange provision. This would subject more transactions to capital gains tax.

Modify, extend or repeal certain business credits. The Camp plan would modify, make permanent or repeal a number of business credits. The research and experimentation credit (which has expired once again under current law) would be modified and made permanent. The low-income housing tax credit (currently permanent) would also be modified. Credits that would be repealed include the credit for a portion of employer Social Security taxes paid for cash tips, the orphan drug credit, the credit for small employers’ health insurance costs, the rehabilitation credit, the credit for electricity produced from certain renewable resources, several other energy-related credits, and several other business credits.

Terminate private activity bonds. Under current law, interest on bonds issued by state and local governments is exempt from tax if the bond proceeds are used for governmental purposes, but taxable if the proceeds are used for private activities, such as financing structures used by businesses or individuals and making loans to businesses or individuals. However, interest on private activity bonds is tax-exempt if the proceeds are used for certain (“qualified”) purposes, such as financing transportation, utility and public/private educational facilities, residential rental properties, and providing certain mortgages and student loans.

Under the Camp plan, no private activity bonds issued after 2014 would be tax-exempt.

Other provisions. The Camp plan would repeal or amend a large number of other, generally more targeted, business-related tax provisions not described in the preceding sections. Repealed provisions include amortization of pollution control facilities, the 50-percent deduction for entertainment and related expenses, the deduction of expenses for personal transportation and other personal amenities not included in the income of employees, the deduction of FDIC premiums by large depository institutions, percentage depletion, the exclusion of gain on certain small business stock (for stock issued after the date of enactment), and both advanced refunding and tax credit state and local bonds. Amended provisions include the tax treatment of contributions to capital, amortization of acquired intangible assets such as goodwill, and various provisions related to accounting rules, derivatives, insurance, pass-through entities, and taxation of foreign persons.

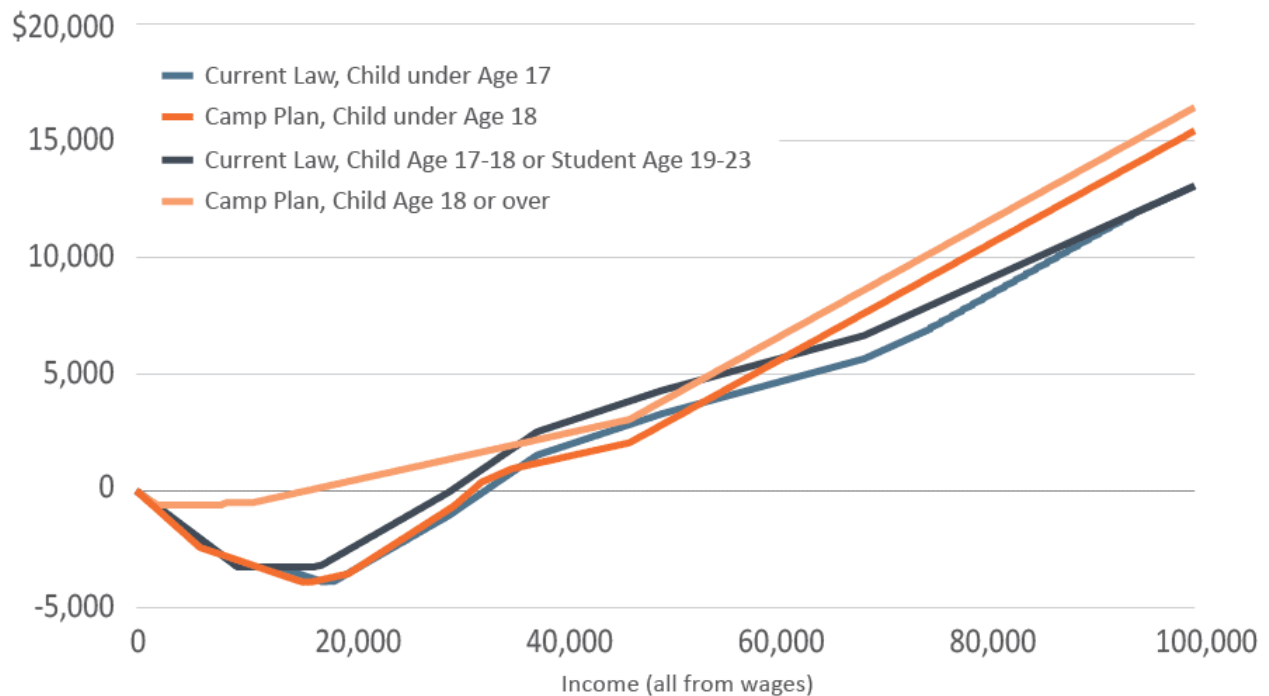
Appendix C: How Representative Families Would Be Affected After 2017

Figures 3 and 4 indicate that prior to 2018 families with older children and low- to moderate-income families with three or more children would experience increases in tax burdens under the Camp plan. After 2017, the Camp plan reduces the phase-in rate of the EITC for all families with children, and the maximum EITC is reduced for all families with one child and single parents with two children. However, in 2018 the beginning of the phase-in of the refundable portion of the child tax credit would be reduced to the first \$1 of earnings under the Camp plan, but increase under current law. Some current law EITC parameters also change after 2017, when the higher credit for three or more children and the increase in the phase-out ranges for joint filers is reduced. To illustrate the net effect of these changes, Figures 5 and 6 repeat Figures 3 and 4, but using parameters that go into effect after 2017.

A single parent with one child would be affected after 2017 by the Camp plan in much the same way as before 2018 (compare Figures 3 and 5). At lower income levels there would be a small effect if the child is young but a fairly large effect if the child is age 18 or over. At higher income levels, the single parent would face a tax increase under the Camp plan regardless of the child's age.



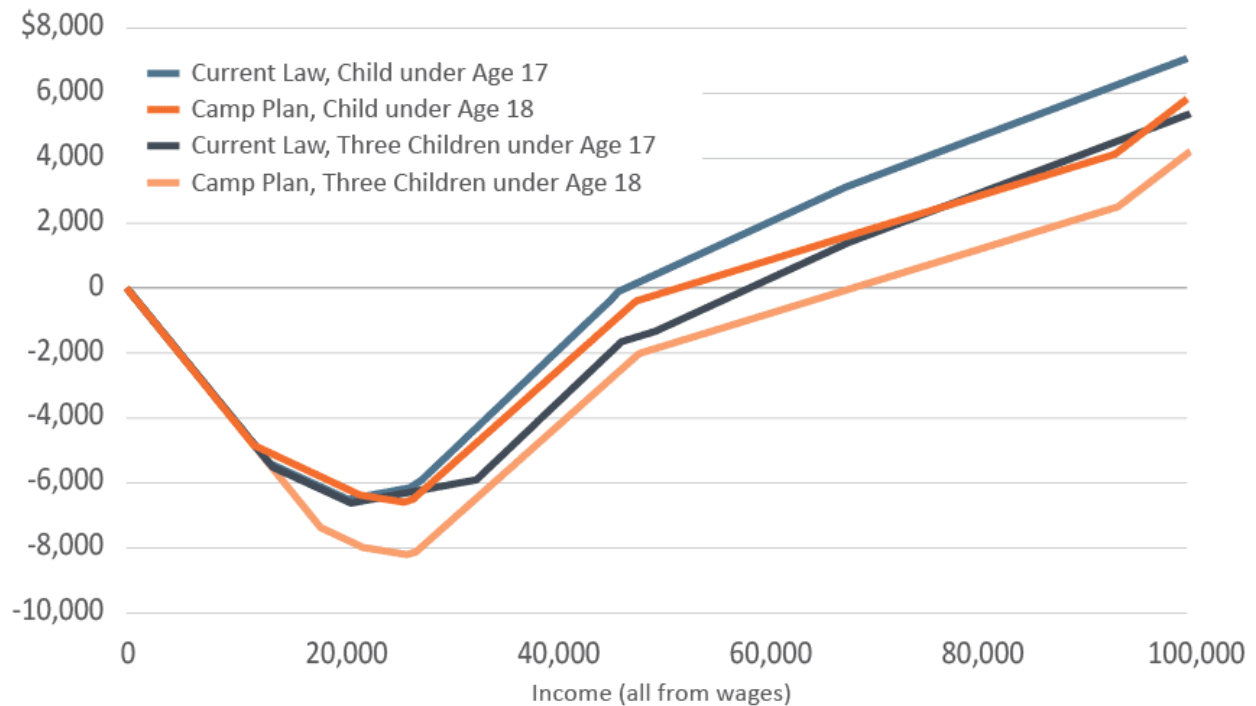
Figure 5. Income Tax Under Current Law and the Camp Plan for a Single Parent with One Child After 2017 (2013\$)



For a couple with moderate levels of income and two or three children, the Camp plan becomes much more generous than current law after 2017 (compare Figures 4 and 6). For the family with two children the shift is due to both the difference in the phase-in of the refundable portion of the child tax credit and the expiration of the higher EITC phase-out rates for joint filers under current law. The shift for the family with three children is due to both of these factors, plus the expiration of the higher EITC for three or more children, making the shift quite large. At higher levels of income the change in the child tax credit and EITC provisions after 2017 have no effect, so the couple would be affected by the Camp plan in much the same way as they were before 2018.



Figure 6. Income Tax Under Current Law and the Camp Plan for a Married Couple with Two or Three Children After 2017 (2013\$)



Source: TPC Calculations